



Economic Update

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Strong February Job Gains Support Expected Growth Rebound

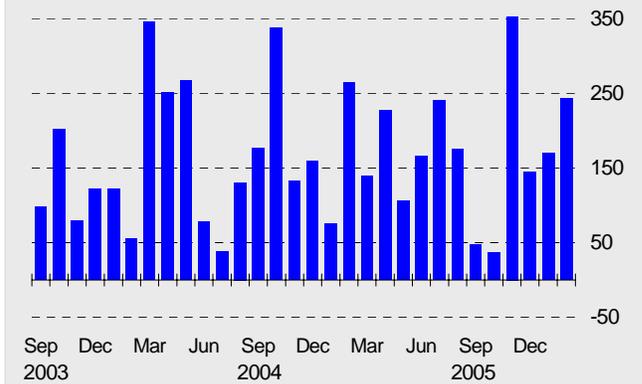
Overview

Strong job gains and continuing low unemployment in February support the consensus forecast of resumed rapid growth in the current quarter. Despite a slowdown in growth in the 4th quarter of 2005, the U.S. economy managed to expand at a robust 3.5-percent rate last year. Forecasters see a sharp rebound of growth this quarter, and robust growth throughout 2006. They also expect continued healthy gains in jobs, historically low unemployment, and low inflation and interest rates.

The Nation's trade deficit rose to a record dollar amount, as import growth continued to outstrip growth in exports. Exports remain restrained due to foreign economies' struggles to expand.

Job Growth in the Past 30 Months Fig. 1

(Change in employment, in thousands)



Highlights

- Payroll employment rose by a strong 243,000 new jobs in February, the 30th consecutive month of employment increases. Close to 5 million new jobs have been added to the Nation's payrolls in that period, and 2.3 million new jobs were added over the past year (Fig. 1). The unemployment rate inched up to 4.8 percent last month from a 4½-year low of 4.7 percent in January.
- Annualized growth in the inflation-adjusted (real) gross domestic product [GDP] was revised up to 1.6 percent in the 4th quarter, from an earlier estimate of 1.1 percent. In the 3rd quarter of last year, real GDP increased 4.1 percent. Forecasters believe the economy is poised for a surge in growth to 4.7 percent this quarter (Fig. 2, next page).
- Indexes of economic activity compiled by the Institute for Supply Management indicate that the manufacturing sector, which has grown for 33 consecutive months, is expanding at a robust pace. The services sector, which has expanded for 35 consecutive months, also is enjoying rapid growth.

Blue Chip Economic Outlook, January 2006

	2005				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	<i>Actual</i>				<i>Projection</i>			
Real GDP Growth	3.8	3.3	4.1	1.6	4.7	3.3	3.0	2.9
Unemployment Rate	5.3	5.1	5.0	4.9	4.8	4.8	4.8	4.8
CPI Inflation	2.3	3.8	5.5	3.3	2.4	2.4	2.4	2.4
3-month Treas. Bill	2.5	2.9	3.4	3.8	4.5	4.8	4.8	4.9
10-year Treas. Note	4.3	4.2	4.2	4.5	4.6	4.8	4.9	5.0

Robust Job Gains in February

The addition of 243,000 new jobs to the Nation's payrolls in February brings the cumulative job gains over the past 30 months of continuous employment increases close to 5 million. Over the past year alone, 2.3 million new jobs have been added to payrolls.

(continued on reverse side)

The unemployment rate edged up to 4.8 percent in February, as robust job prospects drew more people into the labor force. Still, unemployment remains below the averages of the 1970s, 1980s, and 1990s and is well below the near-term peak of 6.3 percent in June 2003.

Growth Expected to Rebound from 4th Quarter

Growth in real GDP, a broad measure of the Nation’s output of goods and services, was revised up to 1.6 percent for the 4th quarter of 2005. The disappointing performance broke a 10-quarter string of growth at 3.3 percent or more. The slowdown in growth from the rapid 4.1-percent rate posted in the 3rd quarter is attributed to factors expected to prove temporary, such as a lull in consumer spending on vehicles and a sharp downturn in Federal Government spending. The *Blue Chip* forecast – a monthly consensus of private forecasters – is for growth in real GDP to surge to a rapid 4.7 percent this quarter, followed by a return toward robust trend-like growth between 3.4 percent and 2.9 percent.

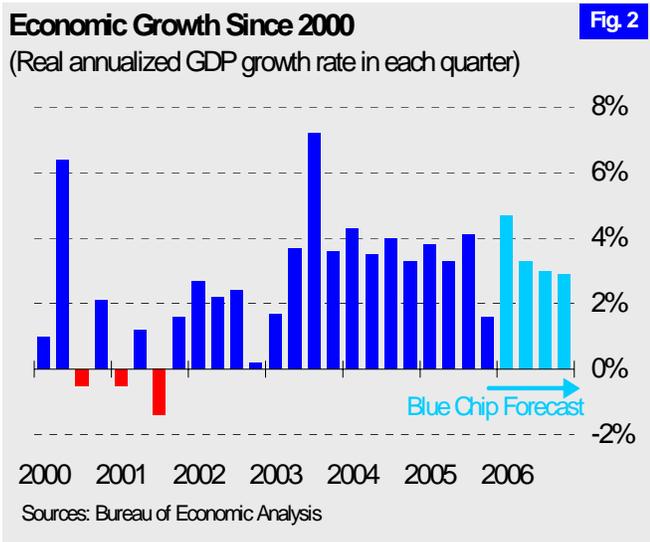
Expansion Continues in Manufacturing, Services

manufacturing sector. (An index value above 50 indicates expansion in economic activity in manufacturing.) The ISM manufacturing index has been above 50 for 33 consecutive months.

The ISM *services* index also rose in February, to 60.1 from a value of 56.8 in January, indicating a vigorous pace of expansion in service-sector activity. The ISM services index has been above 50 for 35 consecutive months. The services sector of the economy accounts for a majority of the Nation’s output.

Fed Expected to Continue Raising Short-Term Rates

Markets expect that the Federal Reserve will continue its recent course of monetary policy by increasing short-term interest rates again by a quarter percent at its policymaking meeting scheduled for March 27 and 28. The Fed has raised its target overnight interest rate from 1.00 percent to the current 4.50 percent in a sequence of quarter-point increases that began at the end of June 2004.



Trade Deficit Rises to Record High

The trade deficit rose by 5.3 percent in January to a new record dollar-value high of \$68.5 billion, surpassing the old monthly record of \$67.8 billion set last October. Import growth in January grew by 3.5 percent, outstripping export growth of 2.5 percent. Export growth remains hampered by struggling expansions in economies abroad. The U.S. trade deficit was \$723.6 billion for all of 2005, a record high.

The Institute for Supply Management [ISM] index of *manufacturing* activity rose to 56.7 in February, from 54.8 a month earlier, indicating a robust pace of expansion in the

Upcoming Indicators

Inflation - The Consumer Price Index for February is scheduled to be released on *March 16*.

GDP - The final estimate of GDP growth for the 4th quarter is scheduled for release on *March 30*.

Employment - The Bureau of Labor Statistics reports the March employment situation on *April 7*.

Federal Reserve - The Fed’s next monetary policy meeting is scheduled for *March 27 and 28*.

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